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A Rural Credit Program

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Farm Operating Loans



U.S. DEPARTMENT OF AGRICULTURE
Farmers Home Administration

FARM OPERATING LOANS

- Livestock
- Equipment
- Operating Expenses
- Refinancing

The Farmers Home Administration makes farm operating loans accompanied by technical management assistance to people to operate family farms.

This loan is tailored to a borrower's needs. The Farmers Home Administration county supervisor helps the borrower analyze his problems, determine his available resources, and plan how these resources, plus those obtained by the loan, may best be used. He also visits the borrower's farm to provide advice in making major adjustments in farm and nonfarm operations and in adopting improved business practices.

Each person applying for credit must be given equal consideration without regard to race, color, creed, or national origin.

Applications from eligible veterans are given preference.

How may loan funds be used?

Farm operating loans may be used to buy cattle, hogs, other livestock; poultry; tractors, plows, sprayers, other farm equipment; food freezers, other home equipment; fencing; to make

minor improvements to buildings and land, and to develop water supply systems for home use, livestock, and irrigation.

Loans may be used for farm operating expenses such as buying feed, seed, tractor fuel, lime, fertilizer, chemical sprays, hail and crop insurance, and hiring labor.

These loans also may be used to pay for food, clothing, medical care, and personal insurance.

Loans may be used to buy equipment and to pay operating expenses for producing and harvesting trees and other forestry products and to finance the production of fish under controlled conditions in ponds, streams, and lakes.

Loans may be used to finance nonfarm and recreational enterprises; to purchase equipment, animals and game birds; to finance minor real estate improvements, and to pay expenses of operating fishing, horseback riding, camping, hunting, machine shop, and other enterprises.

When necessary to assure a sound operation, loan funds may be used to refinance debts other than real estate debts.

Funds may be used to purchase membership and stock in farm purchasing and marketing and service-type cooperatives and certain types of recreational cooperatives.

Loan funds are used to pay for only those items essential to the success of the proposed operations.

What are the terms and interest rate?

Interest rate is set each July 1. Repayment is scheduled according to the borrower's ability to repay. Funds advanced for operating expenses are repaid when the crops, livestock, or other produce are sold.

Funds advanced for other purposes may be repaid in from one to 7 years;

in some cases loans may be renewed for up to 5 years.

A borrower may make large payments in years of high income to build a reserve that keeps the loan in good standing during years of low income.

Each borrower must refinance the unpaid balance of the loan when able to obtain such refinancing at reasonable rates and terms from other lenders.

Who may borrow?

To be eligible, an applicant must:

- (1) Have farm experience or training needed to succeed in the farming operation.
- (2) Possess the character, industry, and ability to carry out the operation.
- (3) Manage and operate the farm and nonfarm enterprise. In all cases, labor must be furnished primarily by the operator and his immediate family, except during seasonal peak-load periods.
- (4) Be unable to obtain sufficient credit elsewhere at reasonable rates and terms.
- (5) Be a citizen of the United States of legal age.
- (6) After the loan is made, be an owner or tenant operating a family farm.

Who determines eligibility?

The county or area committee of the Farmers Home Administration determines eligibility of applicants. The committee consists of three persons who know local farming and credit conditions and the requirements for success. Before acting on an application, the committee members may ask the farmer and his wife to meet with them or they may visit the farm.

If the applicant is eligible, what is the next step?

The Farmers Home Administration county supervisor will assist the applicant in working out a plan to make the best use of land, labor, livestock, capital, and equipment. This plan will be a guide for the borrower and his family in determining the soundness of the proposed operation and a blueprint to follow in operating the farm and nonfarm enterprise. It will show the crops and livestock the borrower expects to produce for sale and home use; practices to follow in caring for land, crops, and livestock; proposed expenditures for livestock, equipment, and nonfarm enterprise, anticipated farm and home expenses, and the expected income and how it will be used. Before a loan is made it must be clear that the borrower will have enough income to meet operating and family living expenses and to repay the loan and other debts.

What other steps may be taken before the loan is made?

In certain cases the county supervisor will assist the applicant in contacting his creditors to determine if his debts can be adjusted or consolidated and repayments extended over a longer period of time. This credit service is designed to help those farmers who are in serious financial trouble and need assistance in working out the orderly settlement of their debts in line with their planned income.

Should a tenant have a written lease?

Yes. A farm operating loan will not be made unless the applicant has the use of a farm of sufficient size and productivity, for a long enough period, to permit him to carry out a successful farming program.

What assistance may the borrower expect after he receives a loan?

Farm operating loans are accompanied by technical advice to help borrowers make profitable use of their land, water, labor, capital, and other resources that will be available to them. The county supervisor furnishes advice in keeping accurate records, budgeting, and otherwise making wise use of income and credit. He also provides on-the-farm assistance with management problems during the first few years of the loan.

May a borrower use other credit?

Yes. Borrowers are encouraged to obtain needed credit from other sources when it is available to them at reasonable rates and terms.

What security is required?

Each loan will be adequately secured to protect the interests of the Government. Security usually consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel property and an assignment taken on income such as that from a dairy enterprise.

What determines the size of loan?

The county supervisor and the local committee determine the amount of farm operating credit which can be made available to an applicant by considering his plan of operation and his ability to repay the loan. In no case may a borrower's total principal indebtedness for the agency's farm operating loans exceed \$50,000.

May a farmer with off-farm income qualify for a loan?

Yes, if he is otherwise eligible, has dependable off-farm income, and will be receiving a substantial portion of his cash income from farming.

Does it cost anything to apply for a loan?

No. If a loan is made, however, the borrower pays the small fees charged by the local county government for lien searches and for filing and recording the security instruments held by Farmers Home Administration.

May a farmer not eligible for a farm operating loan obtain financial advice?

Yes. The county supervisor will do all that he can to help a farmer find solutions to his financial problems. Sometimes this may mean helping the farmer and his creditors work out a repayment schedule that is more in line with the farmer's repayment ability. Sometimes it may mean a close analysis of just how much a farmer can afford to borrow.

Where to apply for a loan?

Apply at the county Farmers Home Administration office serving the area in which you expect to carry out your operations.

Anyone unable to locate the local office may write the Farmers Home Administration, U. S. Department of Agriculture, Washington, D.C. 20250.

How do farm operating loans aid in rural areas development?

Operating loans help farm families acquire the resources and skills they need to improve their operations, raise their standards of living, increase their income, and participate in new enterprises. This assistance in turn stimulates business activity in neighboring

towns and in general helps the farm families and the communities of which they are a part make an important contribution to the strength of the national economy.

What other loans are made by FHA?

Loans may be made to: Purchase and develop farms; build and improve rural homes and essential farm buildings; finance projects for rural youths; meet emergency credit needs of farmers suffering from a natural disaster such as hail, flood, or drought; provide individual, rental and labor housing; develop community facilities and install business or industrial enterprises for rural development.

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